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Japan's Current Account Surplus Registers Another Sharp Drop

If sometimes the best surprise is no surprise, foreign observers have reason to be pleased with Japan's latest current account statistics. Despite turbulent financial markets in Japan and the prolonged weakness of the yen, the surplus dropped a whopping 42.3 percent during 1990's second quarter from the April-June 1989 period (see Table 1). This now familiar pattern represented the sixth quarter in a row that Japan's current account had declined. Most of the drop resulted from the shrinking trade surplus, which was down 30.8 percent. With some adjustments these trade figures reflected the customs-clearance statistics released earlier (JEI Report No. 29B, July 27, 1990), which showed an 18 percent erosion in the surplus.

The April-June 1990 deficit in services trade, which consists mostly of net travel and transportation receipts plus net investment income, reached an all-time quarterly high. The funds spent by Japanese tourists abroad widen the deficit; income received on investments in the United States and elsewhere narrow it. As such, the latest data demonstrated the apparent staying power in the overseas travel boom even in light of the weak yen over the past year. The numbers also pointed to the relatively small impact to date of income from offshore investments despite Japan's status as the world's largest net holder of overseas assets.

Table 1: Japan's Balance of Payments

(in millions of dollars)

	Trade Balance	Exports (f.o.b.)	Imports (f.o.b.)	Services (net)	Current Account Balance	Long-Term Capital (net)
1985	$55,986	$174,015	$118,029	$-5,165	$49,169	$-64,542
1986	92,827	205,591	112,764	-4,932	85,845	-131,461
1987	96,386	224,605	128,219	-5,702	87,015	-136,532
1988	95,012	259,765	164,753	-11,263	79,631	-130,930
1989	76,917	269,570	192,653	-15,526	57,157	-89,246
1988: I	21,021	59,345	38,324	-1,337	18,421	-15,142
II	22,448	63,559	41,111	-2,882	18,567	-36,556
III	23,765	65,989	42,224	-3,623	19,052	-42,214
IV	27,778	70,872	43,094	-3,421	23,591	-37,018
1989: I	21,311	66,945	45,634	-3,595	16,064	-5,612
II	19,794	66,560	46,766	-4,892	14,283	-30,801
III	19,770	68,157	48,387	-4,023	14,957	-21,559
IV	16,042	67,908	51,866	-3,016	11,853	-31,274
1990: I	14,393	65,460	51,067	-701	12,305	-16,086
II (p)	13,693	65,384	51,691	-5,022	8,245	18,721

As Japan's current account has declined, its mirror image -- net capital flows -- predictably has shrunk as well. Net purchases of foreign stocks as well as bonds in the April-June period declined compared to a year earlier (see Table 2). However, investment by Japanese companies in overseas facilities increased 10.1 percent to $12.8 billion, the third-highest quarterly figure ever and the first time since 1980 (when all overseas capital flows were a fraction of their current size) that direct investment exceeded portfolio investment. Unlike investments in stocks, bonds and bank instruments, direct investment typically cannot be repatriated with a couple of strokes on a keyboard. For this reason direct investment probably creates fewer jitters on financial markets, although it usually has a higher public profile -- particularly when foreign-owned factories appear to sprout from corn fields. Should the recent trend in these capital flows persist, the structure of Japan's foreign investment would come to resemble that of the United States. Direct investment abroad by Americans is far more significant than their holdings of stocks and bonds issued overseas.

With Japan's current account registering a 32.3 percent drop in the first half of 1990, it would appear to be on track for another substantial year-to-year decline. Just prior to Iraq's invasion of Kuwait, Nomura Research Institute forecast that Japan's 1990 current account would total $50.7 billion, an 11.3 percent drop from 1989's level. However, events in the Middle East could play havoc with future trade figures. During the April-June quarter Japan's crude oil imports averaged $17.09 per barrel. Should imported crude average $25 a barrel for the remainder of 1990 (slightly below mid-August prices), roughly $2.5 billion would be trimmed from Japan's current account surplus each

Table 2: Japan's Net Purchases of Foreign Securities

(in millions of dollars)

	Bonds			Stocks		
	Purchases	Sales	Net	Purchases	Sales	Net
1985	$291,338	$237,859	$53,479	$5,484	$4,489	$995
1986	1,346,989	1,253,965	93,024	20,917	13,869	7,048
1987	1,273,829	1,200,944	72,885	70,936	54,062	16,874
1988	1,364,061	1,278,249	85,812	76,560	73,567	2,993
1989	1,683,733	1,589,650	94,083	97,056	79,169	17,887
1988: I	332,047	318,877	13,170	18,901	19,467	-566
II	401,293	374,371	26,922	20,518	20,643	-125
III	333,473	307,635	25,838	25,166	23,425	1,741
IV	297,248	277,366	19,882	11,975	10,032	1,943
1989: I	341,774	327,771	14,003	17,724	17,828	-104
II	487,087	461,996	25 091	21,228	15,120	6,108
III	463,493	437,622	25,871	23,602	18,807	4,795
IV	391,379	362,261	29,118	34,502	27,414	7,088
1990: I	356,393	355,524	869	27,640	22,694	4,946
II (p)	350,993	341,640	9,353	19,972	17,819	2,153

quarter, although conservation efforts could affect this amount. This argument suggests that, depending on the world oil market, this year's surplus easily could dip below Nomura's estimate.

Douglas Ostrom

Mixed Japanese Response To Energy Conservation

Despite concern over the impact of the Middle East situation on oil supplies, energy conservation has not become a consuming passion in Japan. This response contrasts starkly with the panic that gripped the nation in the 1973-74 period and again in the 1979-80 period when oil prices skyrocketed. Although the government and businesses have reinstituted public education programs and are encouraging voluntary conservation steps, these actions appear to be barely impinging on the public's pursuit of a higher standard of living. In the long run, however, the crisis generated by Iraq's invasion of Kuwait will hasten efforts to improve the nation's energy efficiency and to develop alternative energy sources.

The Kaifu administration has responded to the self-imposed embargo of Iraqi and Kuwaiti oil with restraint to avoid creating a crisis atmosphere. Government officials have made it clear that they view the Tokyo stock market's sharp drop in the wake of Iraq's invasion as an overreaction. Since 1978 the government has stockpiled 31.4 million kiloliters of crude oil, enough to supply the country's total needs for 54 days. The private sector has 51.3 million kiloliters in storage, adding another 88 days' supply. Since the embargo on